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September 1, 2009

VIA ELECTRONIC MAIL AND HAND DELIVERY

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
Public Service Commission of South Carolina
101 Executive Center Dr., Suite 100
Columbia, SC 29210

VIA ELECTRONIC MAIL AND OVERNIGHT MAIL

Mr. David R. Carpenter
Director – Rates
Piedmont Natural Gas Company, Inc.
Piedmont Town Center
4720 Piedmont Row Drive
Charlotte, NC 28210

Re: Report of Office of Regulatory Staff Examination of Piedmont Natural Gas Company's Monitoring Report Under **CHAPTER 5, TITLE 58 CODE OF LAWS OF SOUTH CAROLINA, ARTICLE 4** ("the Natural Gas Rate Stabilization Act" or "the Act") for the Twelve-Month Period Ending March 31, 2009

Docket No. 2005-125-G

Gentlemen:

The South Carolina Office of Regulatory Staff ("ORS"), in accordance with the Natural Gas Rate Stabilization Act, S.C. Code Ann §§ 58-5-400, et seq. (Supp. 2008), ("RSA" or "The Act"), conducted an examination of Piedmont Natural Gas Company's (hereafter "Piedmont" or "the Company") Monitoring Report for the twelve-month period ended March 31, 2009. Said examination was conducted for the purpose of determining the Company's compliance with Section 58-5-430 and Section 58-5-440 of the Act.

The Company reported in its March 31, 2009, Quarterly Monitoring Report a rate of return and return on equity of 8.87% and 10.52%, respectively. The Company's calculation of additional revenue requirements totaled \$2,521,784 consisting of a \$4,134,798 margin increase accompanied by a \$1,613,014 decrease for demand cost over-recovery.

Based upon its examination, ORS is proposing certain adjustments (see Schedule 2) to reported amounts in order to bring the report into conformance with Section 58-5-430 and Section 58-5-440 of the Act.

As a result of the foregoing adjustments, ORS calculated the Company's rate of return and return on common equity as 8.95% and 10.65%, respectively. Therefore, in accordance with the guidelines of the Act, the Company is entitled to an increase in rates sufficient to achieve a return on equity equaling 12.60%. Accordingly, ORS recommends that the Company be authorized a net increase to revenues of \$2,259,938. This increase is comprised of a recommended margin increase of \$3,876,000 and a decrease of \$1,616,062 for demand cost over-recovery. After the proposed increase, the Company's rate of return and return on equity will be 10.04% and 12.60%, respectively.

The following is a summary of the Dockets relative to the Company's most recent rate adjustments:

Date of Order	Docket Number	Amount Requested	Amount Granted	<u>Rates of Return</u>	
				Rate Base	Common Equity
11/07/95	1995-715-G	\$ 8,827,414	\$7,807,207	10.77%	12.50%
11/01/02	2002-63-G	\$15,336,891	\$8,381,220	10.39%	12.60%
10/21/05	2005-125-G	\$ 4,672,048	\$1,387,964	10.34%	12.60%
09/27/06	2005-125-G	\$11,249,086	\$6,533,885	9.48%	11.20%
10/12/07	2005-125-G	\$1,795,575	(\$709,140)	9.35%	11.20%
10/14/08	2005-125-G	\$5,302,089	\$1,822,717	9.33%	11.20%

The following is a description of the Schedules prepared by ORS as a result of its examination of the Company's filing:

Schedule 1 presents the Company's operating experience, rate base and rates of return for the year ended March 31, 2009, and ORS's accounting and pro forma adjustments which are necessary to correct or normalize the Company's operations both before and after the effect of the requested increase. Utilizing a rate base of \$216,781,185 and per book income of \$14,976,302 ORS computed a rate of return on per book operations of 6.91% with an accompanying return on equity of 7.02%. ORS's accounting and pro forma adjustments increased operating income to \$19,375,625 and decreased rate base to \$216,598,942. The return on equity computed by ORS after accounting and pro forma adjustments was 10.65%. After the adjustments for the proposed margin increase of \$3,876,000 and the decrease to demand cost over-recovery of \$1,616,062, operating income increased to \$21,751,904. The rate of return on rate base computed by ORS after

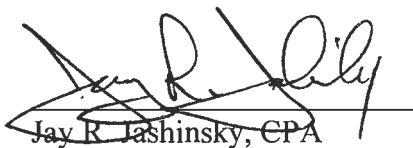
the adjustments for the proposed increase is 10.04% with a corresponding return on equity of 12.60%.

Schedule 2 presents an explanation of the accounting and pro forma adjustments ORS considers necessary for the Company's report to conform with Section 58-5-430 and Section 58-5-440 of the Act. For comparative purposes, the adjustments of both the Company and ORS are presented.

Schedule 3 presents the calculation of the weighted average cost of capital used by the Company in calculating its return on equity both before and after its proposed increase. The rate base, as shown on Schedule 1, is allocated between long-term debt and equity according to the respective ratios as computed using the Company's weighted average capital structure. The amount of total income for return necessary to cover an embedded cost rate of 6.76% on long-term debt is computed to be \$6,407,378. The remainder of the total income for return of \$12,968,247 is income to common equity. Such remainder produced a return of 10.65% on common equity. The overall cost of capital after accounting and pro forma adjustments but prior to the requested increase is 8.95%. Such overall cost of capital equals the rate of return on rate base shown on Schedule 1.

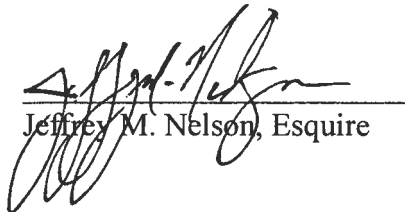
After the proposed increase of \$2,259,938 for the proposed margin increase and the decrease for demand cost over-recovery, income available to common equity is \$15,344,526 and return on common equity is 12.60%. Overall cost of capital as detailed in Schedule 3 equals 10.04%. Such overall cost of capital equals the rate of return on Schedule 1.

Respectfully submitted by,



Jay R. Tashinsky, CPA

- and -



Jeffrey M. Nelson, Esquire

Piedmont Natural Gas Company
South Carolina Operations
Net Operating Income and Rate of Return
For the Twelve Months Ended March 31, 2009
Docket No. 2005-125-G

	(1) Per Regulatory Books	(2) ORS Accounting and Pro Forma Adjustments	(3) ORS As Adjusted	(4) Adjustments for Proposed Margin Increase	(5) Adjustments for Demand Cost Under/(Over) Recovery	(6) Total After Proposed Rates
Operating Revenues						
1 Sale and Transportation of Gas	\$ 211,739,218	\$ (25,535,647)	(1) \$ 186,203,571	\$ 3,876,000	(12) \$ (1,616,062)	(18) \$ 188,463,509
2 Other Operating Revenues	1,015,955	0	1,015,955			1,015,955
3 Total Operating Revenues	212,755,173	(25,535,647)	187,219,526	3,876,000	(1,616,062)	189,479,464
Operating Expenses						
4 Cost of Gas	146,337,947	(32,503,768)	(2) 113,834,179		(1,604,626)	(19) 112,229,553
5 Operations and Maintenance	27,683,975	(513,505)	(3) 27,170,470	8,661	(3,611)	(20) 27,175,520
6 Depreciation	11,852,361	679,203	(4) 12,531,564			12,531,564
7 General Taxes	6,566,124	(194,687)	(5) 6,371,437	18,767	(7,825)	(21) 6,382,379
8 State Income Taxes	1,098,622	(54,504)	(6) 1,044,118	192,429	(15)	1,236,547
9 Federal Income Taxes	4,268,139	2,652,446	(7) 6,920,585	1,279,650	(16)	8,200,235
10 Amortization of Investment Tax Credits	(52,336)		(52,336)			(52,336)
11 Total Operating Expenses	197,754,832	(29,934,815)	167,820,017	1,499,507	(1,616,062)	167,703,462
12 Net Operating Income	15,000,341	4,399,168	19,399,509	2,376,493	0	21,776,002
13 Interest on Customers' Deposits	(131,468)		(131,468)			(131,468)
14 Amortization of Debt Redemption Premium	(14,253)	414	(8) (13,839)			(13,839)
15 Allowance for Funds Used During Construction	123,169		123,169			123,169
16 Customer Growth	(1,487)	(259)	(9) (1,746)	(214)	(17)	(1,960)
17 Net Operating Income for Return	\$ 14,976,302	\$ 4,399,323	\$ 19,375,625	\$ 2,376,279	\$ 0	\$ 21,751,904
Original Cost Rate Base:						
18 Plant in Service	\$ 382,824,720	\$ 0	\$ 382,824,720			\$ 382,824,720
19 Accumulated Depreciation	(150,110,003)		(150,110,003)			(150,110,003)
20 Net Plant in Service	232,714,717	0	232,714,717			232,714,717
Add:						
21 Construction Work in Progress	1,861,262		1,861,262			1,861,262
22 Materials and Supplies	24,945,242		24,945,242			24,945,242
23 Cash Working Capital	(471,109)	(98,171)	(10) (569,280)			(569,280)
Deduct:						
24 Customers' Advances	0		0			0
25 Customers' Deposits	4,027,297		4,027,297			4,027,297
26 Accumulated Deferred Income Taxes	37,895,183	84,072	(11) 37,979,255			37,979,255
27 Unclaimed Funds	346,447		346,447			346,447
28 Original Cost Rate Base:	\$ 216,781,185	\$ (182,243)	\$ 216,598,942			\$ 216,598,942
29 Rate of Return	6.91%		8.95%			10.04%
30 Return on Equity	7.02%		10.65%			12.60%

**Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2009
Docket No. 2005-125-G**

Line No.	Description	Per Piedmont	Per ORS
1	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease revenues on a going-level basis.	\$ (25,535,647)	\$ (25,535,647)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ (25,535,647)	\$ (25,535,647)
2	<u>Cost of Gas</u>		
	To decrease cost of gas on a going-level basis.	\$ (32,503,768)	\$ (32,503,768)
	<u>Total Cost of Gas</u>	\$ (32,503,768)	\$ (32,503,768)
3	<u>Operations and Maintenance Expenses</u>		
a.	To annualize the payroll expense as of March 31, 2009, and to disallow officer salary increases in conformance with PSC Order No. 2002-761, dated November 1, 2002.	\$ (123,781)	\$ (123,781)
b.	To decrease expenses for the salary and payroll investment plan. The plan allows participants to defer a portion of their base salary and the Company matches a portion of the participant's contribution.	(19,860)	(19,860)
c.	Adjustment 3 c. not used.		
d.	To adjust pension costs included in the filing.	(89,073)	(89,073)
e.	To adjust uncollectible gas cost expense utilizing the method approved in Docket No. 2006-4-G, Order No. 2006-527, dated October 11, 2006. This removes uncollectible gas cost expense from base rates and records the amount in account #253.04. The applicable uncollectible gas cost rate is .22345%.	(161,113)	(161,113)
f.	To decrease expenses for allocations to non-utility activities.	(6,914)	(6,914)
g.	To decrease expenses for the Long-Term Incentive Plan.	(182,564)	(182,564)
h.	To decrease expenses for the Short-Term Incentive Plan.	(60,168)	(60,168)
i.	To increase expenses for the MVP Incentive Plan.	187,488	187,488

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2009
Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
j.	To increase expenses for group insurance.	10,054	10,054
k.	To increase expenses for the Piedmont Town Center lease.	3,443	3,443
l.	To decrease expenses for the South Carolina assessment fee.	(1,325)	(13,043)
m.	To decrease expenses for items that are nonallowable for ratemaking purposes.	(140,557)	(210,218)
n.	To increase expenses for amortization of early retirement incentive.	151,229	151,229
o.	To increase expenses for Piedmont Town Center CAM expense.	1,015	1,015
	<u>Total Operations and Maintenance Expense</u>	\$ (432,126)	\$ (513,505)
4	<u>Depreciation Expense</u>		
	To increase depreciation expense on a going-level basis using the most current depreciation study rates.	\$ 679,203	\$ 679,203
	<u>Total Depreciation Expense</u>	\$ 679,203	\$ 679,203
5	<u>General Taxes</u>		
a.	To increase property taxes on a going-level basis.	\$ 2,091	\$ 2,091
b.	To decrease payroll tax expense.	(73,140)	(73,140)
c.	To decrease franchise taxes (rate of .3%) and gross receipts tax (rate of .18418%) for the adjustment made to decrease revenues on a going-level basis.	0	(123,638)
	<u>Total General Taxes</u>	\$ (71,049)	\$ (194,687)
6	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income of accounting and pro forma adjustments.	\$ (64,729)	\$ (54,504)
	<u>Total State Income Taxes</u>	\$ (64,729)	\$ (54,504)

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2009
Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
7	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income of accounting and pro forma adjustments.	\$ 2,605,350	\$ 2,652,446
	<u>Total Federal Income Taxes</u>	\$ 2,605,350	\$ 2,652,446
8	<u>Amortization of Debt Redemption Premium</u>		
	To increase net operating income for amortization of debt redemption premium.	\$ 414	\$ 414
	<u>Total Amortization of Debt Redemption Premium</u>	\$ 414	\$ 414
9	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated decrease in customer growth (rate of (.009.%)) following the adjustments to operating revenues and expenses.	\$ (425)	\$ (259)
	<u>Total Customer Growth</u>	\$ (425)	\$ (259)
10	<u>Cash Working Capital</u>		
	To decrease cash working capital following the pro forma adjustments to operation and maintenance expenses (rate of 12.5%) as reflected in the Original Filing.	\$ (54,016)	\$ (98,171)
	<u>Total Cash Working Capital</u>	\$ (54,016)	\$ (98,171)
11	<u>Accumulated Deferred Income Taxes</u>		
	To adjust accumulated deferred income taxes to reflect the amount attributable to South Carolina.	\$ 0	\$ 84,072
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ 0	\$ 84,072
12	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To increase revenues from the sale and transportation of gas for the proposed margin increase. ORS has recalculated this adjustment utilizing all ORS adjustments to operating revenues.	\$ 4,134,798	\$ 3,876,000
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	\$ 4,134,798	\$ 3,876,000

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2009
Docket No. 2005-125-G

Line No.	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
13	<u>Operations and Maintenance Expenses</u>		
a.	To adjust the provision for uncollectible accounts (.22345%) for the proposed margin increase.	\$ 9,239	\$ 8,661
b.	To increase the utility license fee (rate of .3%) following the adjustment to operating revenues.	12,377	0
	<u>Total Operations and Maintenance Expenses</u>	<u>\$ 21,616</u>	<u>\$ 8,661</u>
14	<u>General Taxes</u>		
	To adjust franchise taxes (rate of .3%) and gross receipts tax (rate of .18418%) for the proposed margin increase.	\$ 0	\$ 18,767
	<u>Total General Taxes</u>	<u>\$ 0</u>	<u>\$ 18,767</u>
15	<u>State Income Taxes</u>		
	To adjust state income taxes (rate of 5%) to reflect the impact on income from the proposed margin increase.	\$ 205,659	\$ 192,429
	<u>Total State Income Taxes</u>	<u>\$ 205,659</u>	<u>\$ 192,429</u>
16	<u>Federal Income Taxes</u>		
	To adjust federal income taxes (rate of 35%) to reflect the impact on income from the proposed margin increase.	\$ 1,367,633	\$ 1,279,650
	<u>Total Federal Income Taxes</u>	<u>\$ 1,367,633</u>	<u>\$ 1,279,650</u>
17	<u>Customer Growth</u>		
	To adjust net operating income to reflect an anticipated decrease in customer growth (rate of (.009%)) following the proposed margin increase.	\$ (254)	\$ (214)
	<u>Total Customer Growth</u>	<u>\$ (254)</u>	<u>\$ (214)</u>
18	<u>Operating Revenues - Sale and Transportation of Gas</u>		
	To decrease the revenue requirement for the sale and transportation of gas associated with demand cost over-recovery.	\$ (1,613,014)	\$ (1,616,062)
	<u>Total Operating Revenues - Sale and Transportation of Gas</u>	<u>\$ (1,613,014)</u>	<u>\$ (1,616,062)</u>

Piedmont Natural Gas Company
South Carolina Operations
Explanations of Accounting and Pro Forma Adjustments
Twelve Months Ended March 31, 2009
Docket No. 2005-125-G

<u>Line No.</u>	<u>Description</u>	<u>Per Piedmont</u>	<u>Per ORS</u>
19	<u>Cost of Gas</u>		
	To decrease cost of gas for the demand cost over-recovery using a demand cost allocation factor of 16.01%, based upon the most recent design day study.	\$ <u>(1,604,626)</u>	\$ <u>(1,604,626)</u>
	<u>Total Cost of Gas</u>	\$ <u>(1,604,626)</u>	\$ <u>(1,604,626)</u>
20	<u>Operations and Maintenance Expenses</u>		
a.	To decrease the provision for uncollectible accounts (rate of .22345%) following the adjustment to revenues for demand cost over-recovery.	\$ (3,586)	\$ (3,611)
b.	To decrease the franchise taxes (rate of .3%) following the adjustments to revenues for demand cost over-recovery.	<u>(4,803)</u>	<u>0</u>
	<u>Total Operations and Maintenance Expenses</u>	\$ <u>(8,389)</u>	\$ <u>(3,611)</u>
21	<u>General Taxes</u>		
	To decrease the franchise taxes (rate of .3%) and gross receipts tax (rate of .18418%) for the adjustment made to revenues for demand cost over-recovery.	\$ <u>0</u>	\$ <u>(7,825)</u>
	<u>Total General Taxes</u>	\$ <u>0</u>	\$ <u>(7,825)</u>

**Piedmont Natural Gas Company
South Carolina Operations
Average Weighted Cost of Capital
Docket No. 2005-125-G**

Schedule 3

<u>Description</u>	<u>Capital Structure</u>	<u>Ratio</u>	<u>Regulatory Per Books</u>				<u>As Adjusted</u>				<u>After Proposed Increase</u>			
			<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Income For Return</u>	<u>Rate Base</u>	<u>Embedded Cost/Return</u>	<u>Overall Cost/Return</u>	<u>Net Operating Income</u>
Long-Term Debt	765,857,535	43.76%	94,863,447	6.76%	2.96%	6,412,769	94,783,697	6.76%	2.96%	6,407,378	94,783,697	6.76%	2.96%	6,407,378
Common Equity	<u>984,273,944</u>	<u>56.24%</u>	<u>121,917,738</u>	7.02%	<u>3.95%</u>	<u>8,563,533</u>	<u>121,815,245</u>	10.65%	<u>5.99%</u>	<u>12,968,247</u>	<u>121,815,245</u>	12.60%	<u>7.08%</u>	<u>15,344,526</u>
Total	<u><u>1,750,131,479</u></u>	<u><u>100.00%</u></u>	<u><u>216,781,185</u></u>		<u><u>6.91%</u></u>	<u><u>14,976,302</u></u>	<u><u>216,598,942</u></u>		<u><u>8.95%</u></u>	<u><u>19,375,625</u></u>	<u><u>216,598,942</u></u>		<u><u>10.04%</u></u>	<u><u>21,751,904</u></u>

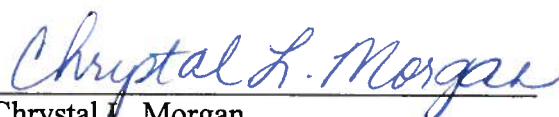
BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA
DOCKET NO. 2005-125-G

IN RE:)	
Notice of Election of Piedmont Natural Gas)	
Company, Incorporated for Application of the)	CERTIFICATE OF
Natural Gas Rate Stabilization Act to Its Rates)	SERVICE
and Charges and Notice of Filing of Quarterly)	
Monitoring Report and Proposed Rate Changes)	
(Years 2005 - 2008))	

This is to certify that I, Chrystal L. Morgan, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **OFFICE OF REGULATORY STAFFS REPORT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Scott Elliott, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, SC, 29205

James H. Jeffries, IV, Esquire
Piedmont Natural Gas Company, Inc.
100 North Tryon Street, Ste. 4700
Charlotte, NC, 28202



Chrystal L. Morgan

September 1, 2009
Columbia, South Carolina